

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



**FINANCIAL EXAMINATION
OF**

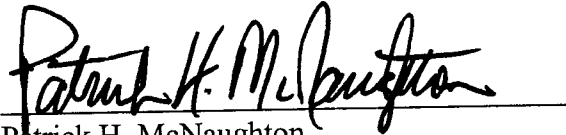
**Progressive Northwestern Insurance Company
Bellevue, Washington**

**NAIC CODE 42919
DECEMBER 31, 2002**

**Participating States:
Washington
Ohio**

CHIEF EXAMINER AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Progressive Northwestern Insurance Company of Bellevue, Washington. This report shows the financial condition and related corporate matters as of December 31, 2002.

A handwritten signature in black ink, reading "Patrick H. McNaughton", written over a horizontal line.

Patrick H. McNaughton
Chief Examiner

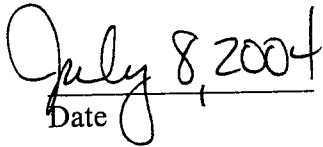
A handwritten date "July 8, 2004" in black ink, written over a horizontal line.
Date

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Seattle, Washington
July 8, 2004

The Honorable Kevin McCarty
Director of Insurance Regulation, Florida
Chair, NAIC Financial Condition (E) Committee
Florida Department of Financial Services
The Larson Building
200 E. Gains Street, Room 101
Tallahassee, FL 32399-0301

The Honorable John Morrison
Commissioner, Montana Department of Insurance
NAIC Secretary, Western Zone
840 Helena Avenue
Helena, MT 59601

The Honorable Sally McCarty
Commissioner, Indiana Department of Insurance
NAIC Secretary, Midwestern Zone
311 W. Washington Street, Suit 300
Indianapolis, IN 46204-2787

The Honorable Mike Kreidler
Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance 5000 Building
5000 Capital Blvd.
Tumwater, WA 98504-0255

Dear Commissioners:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association Examination was made of the corporate affairs and financial records of

Progressive Northwestern Insurance Company
of
Bellevue, Washington

hereinafter referred to as "PNWIC" or the "Company," at the locations of the Bellevue offices and the parent company's home office in Mayfield Village, Ohio. This report is respectfully submitted showing the condition of the Company as of December 31, 2002.

SCOPE OF THE EXAMINATION

The examination covered the period January 1, 1998 through December 31, 2002 and comprised a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination. The findings of the previous examination report were reviewed and any items that were not satisfactorily addressed by the Company are discussed later in the report.

This examination was conducted in cooperation with the Ohio State Department of Insurance, (DOI), as the lead state in the examination of all affiliated insurance companies in the Progressive Group. The examiners placed reliance on the work performed by the Ohio DOI as it related to common corporate records, aspects of the Company's operating procedures, financial records, and pooled reserves. The examiners reviewed and re-tested that work and performed other tests to ensure compliance with Washington State insurance statutes. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2002 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the Annual Statement in accordance with the Annual Statement Instructions published by the NAIC and if its accounts and records were prepared and maintained in accordance with Title 48 of the Revised Code of Washington, Title 284 of the Washington Administrative Code and the NAIC's Accounting Practices and Procedures Manual. No instructions or exceptions were noted during our examination.

COMMENTS AND RECOMMENDATIONS

No comments or recommendations were noted based on our examination.

COMPANY HISTORY

PNWIC was incorporated on September 24, 1982 and commenced business on September 26, 1983, as a property and casualty insurance corporation, domiciled in the state of Washington. PNWIC specializes in underwriting policies for private passenger automobiles, recreational vehicles and small fleets of commercial vehicles.

PNWIC is licensed in 42 jurisdictions and wrote business in 24 of them. For the year ended December 31, 2002, approximately one half of the direct premium volume was written in the

states of Connecticut, Indiana, Minnesota, Missouri, and New York.

Growth of Company

The following schedules reflect the growth of the Company by year beginning in 1998:

Schedule 1

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2002	\$ 1,224,551,016	\$ 848,906,123	\$ 375,644,893
2001	\$ 984,826,100	\$ 703,125,822	\$ 281,700,278
2000	\$ 894,101,955	\$ 654,794,253	\$ 239,307,702
1999	\$ 832,086,967	\$ 597,177,277	\$ 234,909,690
1998	\$ 711,480,457	\$ 509,048,645	\$ 202,431,812

Schedule 2

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Inv. Gain (Loss)</u>	<u>Underwriting Deductions</u>
2002	\$ 1,051,442,635	\$ 40,165,500	\$ 927,616,228
2001	\$ 810,543,551	\$ 56,590,270	\$ 771,691,227
2000	\$ 690,906,338	\$ 40,629,724	\$ 751,154,021
1999	\$ 686,354,754	\$ 25,922,748	\$ 642,907,996
1998	\$ 594,106,532	\$ 27,247,990	\$ 519,335,415

AFFILIATED COMPANIES

PNWIC is a member of an insurance holding company group, referred to as “The Progressive Group” or the “Group.” On March 28, 2003, Form B Insurance Holding Company System Annual Registration Statement was filed with the Insurance Department of the State of Ohio by Progressive Casualty Insurance Company on behalf of thirty-three (33) participating companies. As required by RCW 48.31B.025, Form B was filed with the Washington State Office of Insurance Commissioner.

The following affiliates have material transactions and various agreements with PNWIC:

The Progressive Corporation

The Progressive Corporation is a publicly traded insurance holding company formed in 1965 and the parent company of PNWIC. The Progressive Corporation’s sixty-nine (69) subsidiaries and one (1) affiliate company provide personal automobile insurance and other specialty property-casualty insurance and related services throughout the United States and in Canada. The products protect its policyholders against collision and physical damage to their motor vehicles and liability to others for personal injury or property damage arising out of the use of those vehicles.

On April 2, 1990, PNWIC became a party to the “Affiliate Agreement – Allocation of Federal Income Tax.” Under the terms of the agreement, The Progressive Corporation files a consolidated federal income tax return, using the ‘Separate-Return Method’ to calculate the individual tax liability for its affiliates. The agreement stipulates that each affiliate has ninety (90) days to settle its tax liability resulting from the consolidated return. In addition, settlements are not considered finalized until audited and/or closed by the Internal Revenue Service.

Progressive Casualty Insurance Company (PCIC)

The Progressive Casualty Insurance Company is an affiliated property-casualty insurance company, domiciled in the state of Ohio and wholly-owned by The Progressive Corporation. Progressive Casualty Insurance Company was formed in 1956.

On January 27, 1988, PNWIC entered into the “Management Agreement” with PCIC. Per the terms of the agreement, PCIC is to provide various management services and office facilities to PNWIC. In return for these services, PNWIC agrees to assume a specified portion of the pooled underwriting expenses of the companies that participate under the “Inter-Company Reinsurance Treaty” (see “REINSURANCE” pg. 8). Beginning January 1, 1997 and throughout 2002, PNWIC’s specified portion in the pool was 12% of the total underwriting expenses.

On January 1, 1993, PNWIC became a party to the “Interest Agreement” with PCIC. In order to cut costs and increase efficiencies, a centralized cash management system was developed, whereby, PCIC accounts for the cash activity of each participant. Under the terms of the agreement, interest accrues on a monthly basis, at the prevailing 90-Day Treasury Bill rate, on the last day of each month, computed to the nearest quarter of a percent.

On June 1, 1998, PNWIC became a party to the “Cash Management Agreement” with PCIC. Under the terms of the agreement, PCIC establishes, accounts, and reports the cash transactions of the participants through a centralized bank or cashier account. PCIC provides monthly statements to each participant, detailing the cash activity for the preceding month, per the terms of the Cash Management Agreement. PCIC settles the inter-company balances quarterly, using the participants’ receivable from the cashier account to settle any amounts owed. Participants are required to settle inter-company balances no later than 60 days after the end of the quarter. The cashier account system was established in the late 1970s’, however, a formal written contract, signed by the participating parties, was not executed until January 1, 1998.

Progressive Premium Budget, Inc. (PPB)

Progressive Premium Budget, Inc. is an affiliated premium financing company, incorporated in the state of Ohio and wholly-owned by The Progressive Corporation. On July 28, 1983, PNWIC entered into a “Premium Financing Agreement” with Progressive Premium Budget, Inc. According to the terms of the agreement, PPB offers its premium financing services to customers of PNWIC. All amounts due to PNWIC with respect to premiums financed by

PPB during any month shall be paid or credited to PNWIC no later than ninety (90) days after the last day of the month in which the premiums were financed.

On January 26, 1993, PNWIC became a party to the "Interest and Commission Agreement" with PPB. Per the terms of the agreement, PPB agrees to pay interest on any account balance owed to PNWIC which has been due for more than one (1) week. PPB also agrees to pay to or receive credit from PCIC for any balances or overdrafts of PNWIC's balances in the cashier account. Interest will be charged at an effective rate of 1% above the prime rate after consideration of a 20% compensating balance.

Progressive Capital Management, Inc. (PCM)

Progressive Capital Management, Inc. is an affiliated investment management company, incorporated in the State of Connecticut and wholly-owned by The Progressive Corporation. On July 16, 1992, PNWIC became a party to the "Investment Services Agreement" with Progressive Capital Management, Inc. Per the terms of the agreement, PCM is authorized and directed to provide investment management services to participating affiliate companies who chose to participate. Such services include, without limitation: 1) Development of an investment strategy; 2) Selection of investments; and, 3) Management of investment transactions.

PCM agrees to comply with the instructions it receives from the officers or directors of the participating company and the selected investments shall be permissible investments under all laws and regulations applicable to such participating company. The expenses of PCM are reimbursed by the participating companies each quarter. Each participating company portion is expressed as a percentage, determined by dividing the asset value of the participating company's invested assets by the total of all invested assets. Such amount shall be paid to PCM within thirty (30) days.

ProgNY Agency, Inc. (ProgNY)

ProgNY Agency, Inc. is an affiliated insurance agency, incorporated in the state of New York and wholly-owned by The Progressive Corporation. On August 14, 1996, ProgNY became a party to the "General Agency Agreement" with PNWIC and other affiliates. Per the terms of the agreement, ProgNY, as a general agent, is authorized to solicit, provide quotes, receive applications, bind coverage, and collect and receive premiums for insurance products in the state of New York. PNWIC issues all policies, endorsements, renewal notices, cancellation notices, certificates, filings and other required documentation of coverage.

Progressive Specialty Insurance Agency, Inc. (PSIAI) United Financial Insurance Agency, Inc. (UFIAI)

Progressive Specialty Insurance Agency, Inc., and United Financial Insurance Agency, Inc., are affiliated insurance agencies, incorporated in the states of Ohio and Washington, respectively, and are wholly-owned by The Progressive Corporation. On March 15, 1996, PNWIC became a party to the "Producer's Agreement" with Progressive Specialty Insurance Agency, Inc., and United Financial Insurance Agency, Inc. Per the terms of the agreement,

PSIAI and UFIAI, as general agents, are authorized to solicit, provide quotes, receive applications, bind coverage, and collect and receive premiums for insurance products in all states where appropriate licenses and appointments have been obtained. PNWIC issues all policies, endorsements, renewal notices, cancellation notices, certificates, filings, and other required documentation of coverage.

The Progressive Agency, Inc. (PAI)

The Progressive Agency, Inc. is an affiliated insurance agency, incorporated in the Commonwealth of Virginia and wholly-owned by The Progressive Corporation. On October 29, 1996, PAI became a party to the "General Agency Agreement" with PNWIC and other affiliates. Per the terms of the agreement, PAI, as a general agent, is authorized to solicit, provide quotes, receive applications, bind coverage, and collect and receive premiums for insurance products in the state of Connecticut. PNWIC issues all policies, endorsements, renewal notices, cancellation notices, certificates, filings, and other required documentation of coverage.

MANAGEMENT AND CONTROL

Ownership

All of the outstanding voting stock of PNWIC is owned by The Progressive Corporation. Peter Lewis, Chairman of the Board of The Progressive Corporation, owns approximately 9.4% of the voting stock of The Progressive Corporation. Shareholders with 10% or more of the outstanding voting stock of The Progressive Corporation, as of December 31, 2002, include:

Ruan, Cunniff & Co. Inc.	12.1%
The TCW Group Inc.	12.1%

Both companies have filed a Schedule 13G with The Progressive Corporation and the Securities Exchange Commission, and disclaimers of control with relevant state insurance departments, indicating they have acquired securities of The Progressive Corporation in the ordinary course of business and not with the purpose or the effect of changing or influencing the control of The Progressive Corporation.

Board of Directors

The Bylaws vest all corporate powers and control of the business affairs of the Company in a Board of Directors. PNWIC amended its Bylaws to require that no less than three-fourths of the Board of Directors shall be United States citizens, as required by RCW 48.07.050. Directors of the Company need not be residents of the state of Washington or shareholders of the corporation.

Officers:

The Bylaws vested Robert T. Williams, Jr., President and Chief Executive Officer, with the powers and duties to exercise supervision over the business of the Company. The following Officers were serving the Company as of December 31, 2002:

<u>Name</u>	<u>Position</u>
Robert T. Williams, Jr.	President and Chief Executive Officer
Dane A. Shrallow	Secretary & Vice President
Stephen D. Peterson	Treasurer
Kathleen M. Cerny	Asst. Secretary
James L. Kusmer	Asst. Treasurer & Vice President
Jeffrey W. Basch	Vice President
W. Thomas Forrester, II	Vice President
Charles E. Jarrett	Vice President
Thomas A. King	Vice President
Timothy F. Cercelle	Asst. Vice President
Timothy F. Kaselonis	Asst. Vice President
Michael Robon	Asst. Vice President

Directors:

The following Directors were serving the Company as of December 31, 2002:

Name

Alan R. Bauer
W. Thomas Forrester, II
Charles E. Jarrett
Thomas A. King
Brian J. Passell
Glenn M. Renwick, Chairman of the Board
Michael R. Uth
Richard H. Watts
Robert T. Williams, Jr.

Conflict of Interest

PNWIC has a policy statement and questionnaire for the disclosure of conflicts of interest and requires all directors, officers, and key employees to sign the statement annually. The signed statements are reviewed annually for conflicting situations. The Board of Directors reviews any statement that may contain conflicting situations and takes appropriate action.

Fidelity Bond and Other Insurance

PNWIC is a named insured on an extensive portfolio of insurance providing coverage against all catastrophic losses and other types of losses to The Progressive Corporation and its subsidiaries. The NAIC suggested minimum amounts of fidelity insurance were calculated for PNWIC at a minimum of \$2,000,000 - \$2,250,000. As of December 31, 2002, The

Progressive Corporation carried fidelity coverage with a single loss limit of liability of \$5,000,000 with Chubb Group Fidelity Bond Coverage.

Officers', Employees', and Agents' Welfare and Pension Plans

The Company offers to all employees meeting certain eligibility requirements a variety of insurance benefits including medical, dental, vision, life insurance/AD&D and long-term disability. The Company also offers its employees paid time off, a retirement security program, a long-term savings plan, a self directed retirement plan, a tuition reimbursement policy, and child care subsidies.

CORPORATE RECORDS

The examiners reviewed the corporate records of PNWIC for the period under examination. Board meetings were conducted with a quorum present. The Board members ratified changes to the Articles of Incorporation and Bylaws.

LOSS EXPERIENCE

The reserve carried by the Company for Unpaid Losses was \$327,410,548 and the reserve for Loss Adjustment Expense was \$76,359,140, as of December 31, 2002. These reserves were reviewed by the Property & Casualty actuarial staff employed by the Ohio Department of Insurance. The Company provided losses and loss adjustment expense development data by line of business. The Ohio Department of Insurance actuarial staff obtained additional information by interviewing several Company employees and by reviewing actuarial reports prepared by the Progressive Casualty Insurance Company staff actuary.

The estimates of the Ohio Department of Insurance actuarial staff indicated that reserves for losses and loss adjustment expenses, on a net basis, are within a reasonable range. Reserves, on a net basis, are distributed between participating affiliates based on an approved OIC pooling agreement.

REINSURANCE

The Group makes minimal use of reinsurance with unrelated parties. Internally, however, eleven of the affiliated companies' pool reinsurance and the remaining companies in the Group (with a few exceptions) are reinsured by Progressive Casualty Insurance Company, a pool participant.

On January 1, 1988, PNWIC became a party to the "Inter-Company Treaty" with Progressive Casualty Insurance Company and ten (10) affiliated companies. The purpose of the agreement is to pool certain property/casualty business, net of external reinsurance, and to pro-rate the combined net premiums, losses, loss adjustment expenses, and underwriting expenses to the pool participants in proportion to established ratios. As of December 31, 2002, the pool participants and established ratios were as follows:

<u>Pool Participants</u>	<u>Amount</u>	<u>Ratio</u>
Progressive Casualty Insurance Company	\$4,643,871,640	53%
Progressive American Insurance Company	175,240,439	2%
Progressive Bayside Insurance Company	87,620,220	1%
Progressive Specialty Insurance Company	613,341,537	7%
Progressive Preferred Insurance Company	525,721,318	6%
Progressive Northern Insurance Company	1,051,442,636	12%
Progressive Southeastern Insurance Company	87,620,220	1%
Progressive Gulf Insurance Company	175,240,439	2%
Progressive Northwestern Insurance Company	1,051,442,636	12%
Progressive Mountain Insurance Company	87,620,220	1%
Progressive Classic Insurance Company	<u>262,860,659</u>	<u>3%</u>
	<u>\$8,762,021,964</u>	<u>100</u>

Ceding Provisions

The Pool Participants obligate themselves to cede to PCIC, and PCIC obligates itself to reinsure, 100% of the Net Retention Liability and Underwriting Expenses, under all policies issued during the term of the agreement.

Retrocession Provisions

The Pool Participants agree to assume pro-rata participating shares of the pool, which shall include Net Retention Liability, Underwriting Expenses, and Earned Premium Net of Reinsurance.

STATUTORY DEPOSITS

The Company maintained the following deposits on December 31, 2002, in compliance with statutory and special requirements:

<u>Location</u>	<u>Type of Security</u>	<u>Statement</u>		
		<u>Par Value</u>	<u>Value</u>	<u>Market Value</u>
Arkansas	Georgia State 7.2% due 3/1/2003	\$ 200,000	\$ 200,637	\$ 200,637
California	Certificate of Deposit	25,000	25,000	25,000
Georgia	Georgia State 7.2% due 3/1/2003	45,000	45,143	45,143
Louisiana	US Treasury Note	45,000	44,293	49,444
Louisiana	US Treasury Note	30,000	30,632	32,400
New Mexico	Georgia State 6 1/2 % due 12/1/2007	325,000	352,177	352,177
North Carolina	US Treasury Note	60,000	59,057	65,925
Oregon	Georgia State 7.2% due 3/1/2003	265,000	265,844	265,844
South Carolina	Georgia State 7.2% due 3/1/2003	150,000	150,477	150,477
Virginia	US Treasury Note	10,000	10,213	10,534
Virginia	Georgia State 6 1/2 % due 12/1/2007	125,000	135,453	135,453
Washington	Georgia State 6 1/2 % due 12/1/2007	500,000	541,811	541,811
Total		<u>\$ 1,780,000</u>	<u>\$ 1,860,737</u>	<u>\$ 1,874,845</u>

Special deposits which are held for the protection of the Policyholders:

<u>Location</u>	<u>Type of Security</u>	<u>Statement</u>	<u>Market</u>	
		<u>Par Value</u>	<u>Value</u>	<u>Value</u>
Washington	US Treasury Note	\$ 825,000	\$ 812,035	\$ 906,469
Washington	Georgia State 7.2% due 3/1/2003	1,175,000	1,178,740	1,178,740
Total		\$ 2,000,000	\$ 1,990,775	\$ 2,085,209

Securities held by the state of Washington and other states were confirmed directly with those states or their authorized representatives.

ACCOUNTING RECORDS AND PROCEDURES

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) modified accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for Annual Statement reporting. The Company is audited annually by the Certified Public Accounting firm of PricewaterhouseCoopers, LLP, and this firm issued an unqualified opinion for the year ending December 31, 2002.

SUBSEQUENT EVENTS

No material events subsequent to the examination date were noted which would have a significant impact on the financial condition of PNWIC.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

The previous examination report, dated December 31, 1997, did not include any instructions or recommendations.

Progressive Northwestern Insurance Company
Assets and Liabilities
For December 31, 2002

	Balance Per Company	Examination Adjustments	Balance Per Examination
Assets			
Bonds	\$ 853,994,116		\$ 853,994,116
Stocks:			
Preferred stocks	8,613,920		8,613,920
Common stocks	154,419,945		154,419,945
Cash and short-term investments	597,989		597,989
Subtotal, cash and invested assets	\$ 1,017,625,970		\$ 1,017,625,970
Agents' balances or uncollected premiums:			
Premiums and agents' balances in course of collection	7,188,188		7,188,188
Premiums, agts' bals., and installments booked but deferred and not yet due	109,640,649		109,640,649
Reinsurance recoverables on loss and loss adjustment expense payments	25,380		25,380
Federal and foreign income tax recoverable and interest thereon	45,698,663		45,698,663
Interest, dividends and real estate income due and accrued	8,829,801		8,829,801
Receivable from parent, subsidiaries and affiliates	35,457,116		35,457,116
Aggregate write-ins for other than invested assets	85,249		85,249
Total Assets	\$ 1,224,551,016	\$ 0	\$ 1,224,551,016
Liabilities, Surplus and other Funds			
Losses	\$ 327,410,548		\$ 327,410,548
Loss adjustment expenses	76,359,140		76,359,140
Commissions payable, contingent commissions and other similar charges	1,824,734		1,824,734
Other expenses	28,378,274		28,378,274
Taxes, licenses and fees (excluding federal and foreign income taxes)	6,563,738		6,563,738
Unearned premiums	356,881,596		356,881,596
Advanced premium	5,967,616		5,967,616
Ceded reinsurance premiums payable	182,667		182,667
Draft outstanding	26,578,216		26,578,216
Payable to parent, subsidiaries and affiliates	12,679,157		12,679,157
Aggregate write-ins for liabilities	6,080,437		6,080,437
Total Liabilities	\$ 848,906,123		\$ 848,906,123
Common capital stock	3,000,025		3,000,025
Gross paid in and contributed surplus	124,299,975		124,299,975
Unassigned funds (surplus)	248,344,893		248,344,893
Surplus as regards to policyholders	\$ 375,644,893		\$ 375,644,893
Total Liabilities, Surplus and other Funds	\$ 1,224,551,016	\$ 0	\$ 1,224,551,016

Progressive Northwestern Insurance Company
Statement of Income
For the Year Ended December 31, 2002

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Underwriting Income			
Premiums earned	\$ 990,470,983	\$ 0	\$ 990,470,983
Deductions			
Losses incurred	568,515,569		568,515,569
Loss expenses incurred	132,764,961		132,764,961
Other underwriting expenses incurred	226,273,435		226,273,435
Aggregate write-ins for underwriting deductions	62,263		62,263
Total underwriting deductions	<u>927,616,228</u>		<u>927,616,228</u>
Net underwriting gain or (loss)	62,854,755		62,854,755
Investment Income			
Net investment income earned	43,658,790		43,658,790
Net realized capital gains or (losses)	<u>(3,493,290)</u>		<u>(3,493,290)</u>
Net investment gain or (loss)	40,165,500		40,165,500
Other Income			
Net gain or (loss) from agents' or premium balances charged off	(4,412,321)		(4,412,321)
Finance and service charges not included in premiums	13,547,798		13,547,798
Aggregate write-ins for miscellaneous income	1,701,501		1,701,501
Total other income	<u>10,836,978</u>		<u>10,836,978</u>
Net income, after dividends to policyholders but before federal and foreign income taxes	113,857,233		113,857,233
Federal and foreign income taxes incurred	<u>50,309,974</u>		<u>50,309,974</u>
Net income	<u>\$ 63,547,259</u>	<u>\$ 0</u>	<u>\$ 63,547,259</u>
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	281,700,278		281,700,278
Gains and (Losses) in Surplus			
Net income	63,547,259		63,547,259
Net unrealized capital gains or (losses)	(9,281,069)		(9,281,069)
Change in net deferred income tax	8,819,807		8,819,807
Change in nonadmitted assets	(7,055,723)		(7,055,723)
Change in provision for reinsurance	1,000		1,000
Surplus adjustments:			
Paid in	40,000,000		40,000,000
Aggregate write-ins for gains and losses in surplus	<u>(2,086,659)</u>		<u>(2,086,659)</u>
Change in surplus as regards policyholders for the year	93,944,615		93,944,615
Surplus as regards policyholders, December 31, current year	<u>\$ 375,644,893</u>	<u>\$ 0</u>	<u>\$ 375,644,893</u>

Progressive Northwestern Insurance Company
Reconciliation of Surplus for the Period since Last Examination
For the Year Ended December 31,

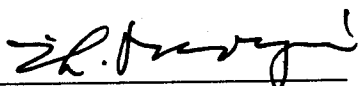
	2002	2001	2000	1999	1998
Capital and surplus, December 31, prior year	\$ 281,700,278	\$ 239,307,702	\$ 234,909,690	\$ 202,431,812	\$ 181,030,894
Net income	63,547,259	65,204,102	9,607,339	21,906,542	38,122,991
Net unrealized capital gains or (losses)	(9,281,069)	(262,169)	6,154,450	(1,919,028)	(466,635)
Change in net deferred income tax	8,819,807	181,136	0	0	0
Change in nonadmitted assets	(7,055,723)	1,691,116	17,223	586,364	426,562
Change in provision for reinsurance	1,000	(1,000)	0	0	0
Change in excess of statutory reserves over statement	0	0	(381,000)	(96,000)	318,000
Cumulative effects of changes in accounting principles	0	38,579,391	0	0	0
Surplus adjustments:					
Paid in	40,000,000	0	0	12,000,000	0
Dividends to stockholders (cash)	0	(63,000,000)	(11,000,000)	0	(17,000,000)
Aggregate write-ins for gains and losses in surplus	(2,086,659)	0	0	0	0
Change in surplus as regards policyholders for the year	93,944,615	42,392,576	4,398,012	32,477,878	21,400,918
Capital and surplus, December 31, current year	\$ 375,644,893	\$ 281,700,278	\$ 239,307,702	\$ 234,909,690	\$ 202,431,812

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Progressive Northwestern Insurance Company during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP Assistant Chief Examiner; and, Tarik Subbagh, CPA, MSBA, Insurance Examiner, from the Washington State Office of the Insurance Commissioner; William C. Harrington, CFE, CPA, Assistant Chief Examiner; William J. Geiszler, CFE, CIE, Examiner-in-Charge; Mary D. Miller, FCAS, MAAA; Floyd D. Meeks, AES, CFE, CPA; Dominik R. Ilc, CPA; and, Jeffrey A. Becker, AFE, all from the Ohio Department of Insurance; participated in the examination and the preparation of this report.

Respectfully submitted,



Timoteo L. Navaja, CFE, CIE
Examiner-in-Charge
State of Washington

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STATE OF WASHINGTON


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COUNTY OF KING

Timoteo L. Navaja, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Progressive Northwestern Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).


Timoteo L. Navaja, CFE, CIE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 8th day of July, 2004.


Notary Public in and for the
State of Washington, residing in Seattle

